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SUBJECT: KAZAKHSTAN: INTERNATIONAL OIL COMPANIES BRIEF AMBASSADOR
ON CURRENT OPERATIONS AND FUTURE PLANS

11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: Several international oil companies active in Kazakhstan briefed the Ambassador on their current operations and future plans in separate meetings during September 30 to October 2. They reported that negotiations on the Kashagan project are in their final stages, new exploration opportunities abound in the north Caspian region, and relations with the Kazakhstani government are generally very good. The companies stressed the importance of increasing overall crude oil transportation capacity, noted that there will be increased risk associated with investments in Georgia, and maintained that the Government of Kazakhstan is seriously considering increasing oil exports via Iran. END SUMMARY.

TNK-BP PURSUING "MAJOR" ACQUISITION

13. (SBU) The Ambassador met on September 30 with TNK-BP Vice President for International Affairs Shawn McCormick, along with the company's Kazakhstan Country Director, Alexandr Grabovsky, and Senior Manager for International Affairs Sergey Tanaschuk. McCormick said that TNK-BP was "satisfied" with the recent negotiated settlement regarding its Russian Federation operations and confirmed that changes in company leadership and board composition are forthcoming. McCormick also mentioned that TNK-BP will float 20% of company stock on the Russian capital markets within the next two years, which he expected to improve company morale and retention.

14. (SBU) TNK-BP has been operational in Kazakhstan for less than one year and the TNK-BP representatives lamented to the Ambassador that their company arrived on the scene too late to join one of the "big three" projects (i.e., Tengiz, Kashagan, and Karachaganak). Nevertheless, McCormick was optimistic that TNK-BP will complete a major onshore, upstream acquisition in northwestern Kazakhstan within the "next couple of months." The location is strategic for TNK-BP, since it is near their existing upstream assets in Orenburg, Russia. McCormick noted that TNK-BP has been a major client for U.S. oil service companies operating in Russia and expects to

increase the volume of business it conducts with U.S. suppliers as it expand operations into Kazakhstan and elsewhere. According to McCormick, during the past two years alone, TNK-BP purchased more than \$700 million in goods and services from U.S. suppliers to support operations in Russia. McCormick also expressed frustration that the Government of Turkmenistan has again delayed a decision on awarding production rights to international companies and said the company does not expect a decision before 2009. "We're in the hopper, along with all the other companies. We're ready when they're ready," said McCormick.

GEORGIA CONFLICT GALVANIZES EUROPEAN SUPPORT FOR NABUCCO

15. (SBU) The Ambassador met on September 30 with Wolfgang Sporrer, OMV Gas and Power Country Manager for the Caspian Region, to discuss the Nabucco gas pipeline to Europe. Sporrer maintained that in the aftermath of the conflict in Georgia, political support for Nabucco has greatly increased and European governments have become "galvanized" in favor of the project. Of course, he said, there have been negative consequences as well: the risk premium for construction and infrastructure investments in Georgia has increased, and the Government of Turkmenistan is more apprehensive than previously. Sporrer reported that at the September 4-5 oil and gas conference in Baku, Turkmen representatives had no individual meetings with international oil companies (IOCs). In fact, according to Sporrer, Turkmenistan's delegates to the Baku conference allegedly had to sign a letter to President Berdimukhamedov before departure, vowing not to meet with IOCs. (NOTE: Another conference participant claimed to Energy Officer that Marathon had a meeting in Baku with the Turkmenneft Chairman, but this could not be independently confirmed. END NOTE). Despite all of this, Sporrer said that OMV remains "very interested" in

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doing business with Turkmenistan. "This is no time to cut and run," he argued, "but we may need to go slower."

16. (SBU) Sporrer was in Kazakhstan at the invitation of the state-owned oil company, KazMunaiGas (KMG). He said the Kazakhstanis complained to him that "no one ever talks to us about Nabucco." Sporrer raised the issue of Kazakhstan supplying gas to Europe in 2014-15, after the start-up of production at Kashagan, when "they will not re-inject as much gas and will have more available for export." Sporrer said he told Askar Batalov, Executive Secretary of the Ministry of Energy and Mineral Resources, that it is in Kazakhstan's interests to participate in Nabucco -- at the very least, in order to ensure that Russia pays competitive market prices for gas from Kazakhstan. However, according to Sporrer, his meetings were inconclusive, and it is too early to tell whether the Kazakhstani government is favorably disposed to participating in Nabucco. (NOTE: During an Economist Business Roundtable held in Astana on September 30, Batalov said that the Government of Kazakhstan remains committed to the agreement it signed with the European Union to transport Turkmen gas to Europe, is exploring large gas fields near the Aral Sea, will build additional gas processing plants to meet domestic gas demand, and is seriously considering building a new gas pipeline via the Aral Sea with the capacity to transport up to 1.5 billion cubic meters annually. END NOTE.)

KASHAGAN NEGOTIATIONS IN FINAL STAGES

17. (SBU) On October 1, the Ambassador met with Shell Kazakhstan Country Chair Campbell Keir and Corporate Affairs Manager Daniel Worrall. Keir noted that Shell and other Kashagan consortium members were involved in negotiations that day with KMG on taxation, transportation, and equity allocation issues. The Government of Kazakhstan had set a deadline of October 25 to conclude negotiations on Kashagan, but Shell hopes to conclude talks by October 15. Production operations at Kashagan are expected to be extremely expensive -- "more than the first lunar landing and five times the cost of the Beijing Olympics," according to Keir, with the initial "Experimental Phase" managed by Eni expected to cost more than \$30 billion. Keir said that they used to refer to the initial phase as "EP 450" because production was supposed to reach 450,000 barrels per day, but out of an abundance of caution, consortium members now

simply refer to the "Experimental Phase." Keir said first oil is expected in the fourth quarter of 2013.

KMG FINANCES A MYSTERY

¶8. (SBU) When asked how KMG plans to pay for its increased share in Kashagan, Keir called KMG's finances "a mystery." He claimed that KMG could not tell Sir Richard Evans, Chairman of the state-owned Samruk holding company which owns 100% of KMG, the company's current cash position. Instead, KMG told Evans that it would "get back to him in about three months with an answer." (NOTE: KMG released a press statement on October 2 announcing that the company had paid off a bridge loan of \$1.05 billion ahead of schedule. The funds were raised to finance KMG's purchase of an additional 8.48% stake in the Kashagan consortium. A syndicate of eight banks extended the 15-month loan in September 2007. BNP Paribas, Societe Generale, and Citibank N.A. Bahrain acted as lead managers. END NOTE.)

KAZAKHSTAN CONSIDERING SOUTHERN ROUTE VIA IRAN

¶9. (SBU) Keir also informed the Ambassador that Shell's joint venture with KMG in Mangistau oblast drilled an appraisal well and "encountered some hydrocarbons." Shell will do further drilling and conduct seismic tests in 2008-09 to determine the extent of the reservoir. According to Keir, the real problem with exploration in the Caspian is the lack of drilling rigs and other necessary infrastructure. "There simply are not enough rigs available," argued Keir. He said that Shell strongly supports the Kazakhstani

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government's "multi-vector" transportation policy and informed the Ambassador that the Kazakhstanis are also seriously considering "the southern route," via Iran. Worrall maintained that Iran has been active lately in the Caspian. Under a contract from the Iranian government, China Oilfield Services Ltd. completed construction of the Alborz offshore drilling rig and, according to Worrall, Iran intends to deploy the rig and three tankers to drill two appraisal wells in "disputed territory" in the deep water of the southern Caspian.

¶10. (SBU) When asked about the Georgia conflict, Keir called it a "wake-up call" and said "people in government will be more cautious," but he downplayed its impact, calling it a political issue that is unlikely to detract from doing business. Worrall pointed out that Sandra Roelofs, the wife of Georgian President Saakashvili, had arrived in Kazakhstan on September 28 for several high-profile meetings, which Worrall speculated would send a message of support and sympathy for Georgia. (NOTE: In fact, Roelofs visited Kazakhstan in her capacity as a humanitarian ambassador for the global "Stop TB" partnership. END NOTE.) Keir also announced that Shell will close its office in Almaty within two weeks and move its country headquarters to Astana.

EXXONMOBIL INTERESTED IN BUYING BP'S STAKE IN KASHAGAN

¶11. (SBU) The Ambassador met on October 2 with Patty Graham, Government Relations and Public Affairs Director for ExxonMobil Kazakhstan. She confirmed reports that Kashagan negotiations are in their final stages, with transportation and taxation issues yet to be resolved. Graham also confirmed that BP is the only CPC partner that has yet to sign a memorandum on CPC expansion. She said that BP is interested in selling both its 6% stake in CPC and its 5% stake (held jointly with Lukoil) in Tengizchevroil (TCO). According to Graham, ExxonMobil would be interested in purchasing the TCO share, but BP is already in talks to sell it to KMG. Graham claimed that KMG is "extremely over-extended" financially as it pursues a number of multi-billion dollar projects simultaneously, including the acquisition of 51% of MangistauMunaiGas, the increase in its Kashagan stake, the expansion of CPC, a \$3 billion investment in Romanian oil company Rompetrol, and ongoing projects to construct oil and gas pipelines to China. Graham said KMG had already withdrawn \$4 billion from its \$17 billion "rainy day" fund and may have to withdraw an additional \$4 billion.

TRANSPORTATION CAPACITY SEVERELY CONSTRAINED

¶12. (SBU) Graham stressed the importance of moving forward on the the Kazakhstan Caspian Transportation System (KCTS), explaining that up to 50% of Kashagan oil could ultimately be delivered via that route. She said that oil transportation capacity is already constrained -- CPC is at its full capacity of 690,000 b/d -- and new capacity will be essential when Kashagan begins production in 2013. For ExxonMobil, shipment from Baku onward to European markets is the \$64,000 question, particularly in the wake of events in Georgia.

¶13. (SBU) The Georgia conflict, Graham explained, has led ExxonMobil to take a "wait and see" attitude regarding future rail or pipeline projects through Georgia. At a minimum, she said the company will expand its feasibility studies in light of what Graham called "additional risk." Graham claimed that the conflict has also had an impact on Kazakhstan's business plans in Georgia. "They're worried," she said. "I do believe that they have concerns, because they are heavily invested in Georgia, but their number one priority is maintaining good relations with Russia." Partly as a consequence of the conflict in Georgia and partly as a result of transportation capacity constraints, Graham maintained that KMG is seriously exploring the possibility of shipping Kashagan oil south via Iran. "The French and Italians are supportive of the idea," she said. (NOTE: Italy's Eni will manage the Experimental Phase of Kashagan production and France's Total will provide the managing

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director for the new joint operating company that will manage the Kashagan production sharing agreement going forward. END NOTE.) Graham also said that ExxonMobil expects significant oil production from fields other than Tengiz, Kashagan, and Karachaganak, saying "there's a lot out there" in the Caspian basin.

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